

## Regulatory News Alert

### ESMA publishes its first report based on AIFMD reporting

6 April 2018

#### Context

On 20 March 2018, ESMA published its report on trends, risk and vulnerabilities, where they discuss the main trends and risks of the current fund reporting environment. It also includes the first EU-wide evidence on AIF markets, based on AIFMD reporting data collected at the end of 2016.

#### Risk and trends

Risks in the markets under ESMA's remit remained at high levels, with market risk reflecting the low interest rate environment as well as uncertainty on future geopolitical developments. The level of credit risk has improved thanks to a strengthening macroeconomic environment and higher credit ratings in several EU member states. Liquidity risk remains high despite improvements in securities markets.

#### First-time EU-wide evidence on the AIFs market

The report provides first-time EU-wide evidence on the alternative investment fund market using the supervisory information transmitted by National Competent Authorities. It presents an overview of the structure and risks of the EU AIF market and is based on AIFMD data collected at the end of 2016, which covers around 60 percent of the AIFs managed or marketed by EU asset managers.

#### Key figures

- More than 80 percent of the AIFs reported are managed by authorized AIFMs.
- Registered AIFs have an average NAV of €50 million, whereas AIFs managed by authorized AIFMs have an average NAV of €160 million.
- The AIF industry seems to be dominated by a few large participants.
- Only 2 percent of the AIFs are above the €1 billion threshold. 95 percent of the AIFs are sized below €500 million.
- Fixed income is the most pursued strategy, with the largest share in terms of NAV followed by other strategies, funds of funds, equity, and commercial real estate.

- Europe is the key investment area with 65 percent of assets domiciled in the European Economic Area (EEA).
- Investors are mainly professional with insurances and pension funds holding together 40 percent of the assets managed by EU AIFMs.
- 70 percent of the AIFs are open-ended, offering redemption rights in the ordinary course of business. Half of these AIFs restrict investors' redemption by requiring advance notice of redemption. The lockup period appears rather limited.
- AIFs strongly rely on reverse repurchase agreements, which account for almost 60 percent of the total borrowings. Unsecured borrowing plays only a minor part.

## **Liquidity risk**

A dedicated section on liquidity risk emphasizes that a risk of liquidity mismatch characterizes funds of funds, as the liquidity they offer to investors may not be aligned with the redemption periods of the funds in which they invest. However, they noted that hedge funds' portfolios and investor liquidity is well aligned thanks to their more liquid investments and the high share of unencumbered cash in their portfolio.

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